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THE KIPLINGER WASHINGTON LETTER

EXHIBIT

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THE KIPLINGER WASHINGTON EDITORS

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A1

Dear Client:

Washington, June 17, 1994

No matter what business you're in, you have to rely on the mail for sending bills, receiving and making payments, ordering, advertising, communicating with your customers and suppliers, the gov't and others. Even if you WANTED to, you couldn't avoid dealing with the post office. So it's important to know what's going on there and what's coming up.

Service is slipping. In fact, it's probably the worst ever. Bills and remittances aren't being delivered on time, hurting cash flow and credit ratings. More & more reports of advertising mail being dumped by postal workers and tax returns and certified mail simply disappearing.

Reasons for this: Lack of accountability in postal operations... splitting responsibilities for customer service, processing and delivery. Early-retirement incentives... 25,000-30,000 seasoned handlers left early. Inability to determine capacity and estimate workloads a week in advance. And problems that anyone would have in trying to run a service operation that has 600,000 unionized employees and a \$50-billion operating budget.

Problems are worst in big cities... Chicago, NYC and Wash., D.C. A lot of mail gets routed through them, and that causes snags all over.

Total mail volume is up, even though service is deteriorating. But the post office is losing profitable mail such as packages and one or two-day service to Federal Express, UPS and other competitors. They generally cost more, but senders know that delivery is dependable. Other times, the post office is outbid... a private service may contract to deliver all of a cataloger's packages at a lower price, for example.

Other competition too... faxes, electronic-funds transfer, E-mail.

Postage will go up next January despite all the competition. Post office has no choice... it will run \$2 billion in the red this year. It makes the point that a 10.3% increase will be the smallest in years. But the next hike will be in '97, not the usual three or four-year wait.

Post office won't sit still. Management is being streamlined... one person in each area in charge of sales-service AND sorting-delivery. It's an effort to improve management accountability and responsiveness.

A new classification plan in '96 will add flexibility to service and rates while reducing complexity and increasing overall efficiency. Pricing will be based on how fast mailers want their stuff delivered and how much work they'll do to make automated processing go smoothly.

Even some talk of GUARANTEED delivery... your money back if late.

Automation will help improve service and control labor costs. Expanded use of optical scanners to read even written envelopes and then apply the barcodes. Also scanning of business-reply cards... then transmitting them electronically to mail-order firms and others. The Postal Service doesn't want to get stuck just delivering the mail.

Barcodes on EVERYTHING, even on trays and bags at post offices, where they'll automatically travel on conveyor belts to the right truck. Computerized sorting equipment will put mail in sequence for carriers... freeing up more time for them to deliver. That will mean longer routes. Electronic kiosks will be placed in the lobbies of post offices so that people without computers can send E-mail, tap gov't data banks for job openings or other information. And perhaps even pay bills.

All told, post office will spend another \$2 billion to automate. But automation alone won't do the trick...turn service around.
It's a people problem...need friendlier, customer-first workers and managers who will become facilitators rather than rigid bureaucrats. Postal managers will be instructed to operate more like sales managers... work closely with big mailers, provide assistance and show appreciation. Postal leaders recognize problems and are trying to correct them through training and retraining, weeding out bad apples when possible and speeding up counter service. Goal...no more than 5 minutes in line.

Here's what you can do to improve delivery and hold down costs:
Keep lists current...names, addresses, apartment numbers, zips. Ask those who receive your mail to let you know about address errors. One bad number in a zip code can delay delivery at least several days.
Look into combining your mail with others to get lowest rate. Mail-consolidating firms can help on this, send to destination points.
Watch weight of paper...makes a difference on what you must pay.
Check your internal mail flow to see where the glitches occur. Try to get mail out early in the day, in the delivery stream right away. Barcode if possible and use nine-digit zips...a MUST with automation.
And plan to mail early this fall...volume is expected to be up due to the stronger economy, increased catalog mailings and elections. Politicians red-tag their campaign mail, bumping ahead of other mailers.

The health bill may hinge on "triggers" for employer mandates. Congress won't go along with requiring all employers to buy insurance. It may accept a compromise...no mandatory employer coverage right now, but if in another five years 5% or so of people still aren't insured, Congress would be forced to consider mandates...CONSIDER, that's all. Less likely is an automatic employee mandate if people aren't covered.

Tax changes to encourage savings will be proposed near year end by a presidential commission that's headed by Sens. Kerrey and Danforth. Among the ideas that the group is kicking around: A national sales tax. An income tax that excludes savings. And a value-added tax on imports.
No action for now. Clinton wants a discussion of tax overhaul but doesn't want voters to think he's angling for another tax increase.

Va. Senate race is a muddle. Four candidates on the Nov. ballot: Democratic nominee, Senator Chuck Robb, who admits marital indiscretions. GOP nominee, Ollie North, who admits lying to Congress about Iran-Contra. Marshall Coleman...ex-att'y general...shopworn, the Harold Stassen of Va. And former Democratic Gov. Douglas Wilder, who left office in low esteem.
Independents Coleman and Wilder may decide who wins the election. Coleman, a Republican, will draw GOP voters who are uneasy about North. And Wilder will undermine Robb by attracting blacks and union members. Any of the four could end up winning, but Robb probably has the edge.